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Inpatient Prospective Payment System (IPPS) Outlier Reconciliation

Note: This article was revised to contain web addresses that conform to the new CMS web site and to show they are now MLN Matters articles. All other information remains the same.

Provider Types Affected

Hospitals billing services paid under the IPPS to Medicare fiscal intermediaries (FIs)

Provider Action Needed

This article is informational in nature and condenses information contained in Change Request (CR) 3966 that instructs your FI:

- How to calculate Cost-to-Charge Ratios (CCRs), and when to use alternative data for CCRs.
- Which CCR to apply in instances of hospital mergers, and what to do when errors occur with CCRs and Outlier Payments; and
- How to implement IPPS reconciliation policies, and how to apply the time value of money to reconciliation

Background

The Social Security Act provides basic Medicare prospective payments to Medicare-participating hospitals and additional payments for cases incurring extraordinarily high costs (Section 1886(d)(5)(A)). These additional payments are known as "Outlier Payments," and they are designed to protect the hospital from large financial losses due to unusually expensive cases. The regulations governing payments for operating costs under the IPPS are located in 42 CFR Part 412, and the specific regulations governing Outlier Payment cases are located at 42 CFR 412.80 through 412.86.

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This article was prepared as a service to the public and is not intended to grant rights or impose obligations. This article may contain references or links to statutes, regulations, or other policy materials. The information provided is only intended to be a general summary. It is not intended to take the place of either the written law or regulations. We encourage readers to review the specific statutes, regulations and other interpretive materials for a full and accurate statement of their contents.

Note: You can review all 42 CFR 412 (Title 42 (Public Health), Chapter IV (CMS & HHS), Part 412 (IPPS)) regulations at the following Government Printing Office (GPO) web site:

http://www.access.gpo.gov/nara/cfr/waisidx_04/42cfr412_04.html

To qualify for an Outlier Payment, a case must have costs above a fixed-loss cost threshold amount which is:

- The dollar amount by which the costs of a case must exceed payments in order to qualify for outliers; and
- Published in the annual Inpatient Prospective Payment System (IPPS) final rule, which can be found at <http://www.cms.hhs.gov/QuarterlyProviderUpdates/downloads/cms1500f.pdf> on the CMS web site.

The actual determination of whether a case qualifies for Outlier Payments is made by the FI using a software program called Pricer, which takes into account both operating and capital costs and Diagnosis Related Group (DRG) payments. That is, the combined operating and capital costs of a case must exceed the fixed loss outlier threshold to qualify for an Outlier Payment.

Outliers are not applicable to non-PPS hospitals. The Pricer program makes all outlier determinations except for the medical review determination.

Included in this manual update is the complete formula for calculating an inpatient hospital's CCR.

Effective November 7, 2005, for hospitals that merge, the Medicare FI will continue to use the operating and capital CCR from the hospital with the "surviving" provider number. But, effective November 7, 2005, if hospitals merge and a new provider number is issued, FIs will use the statewide average CCR because a new provider number indicates the creation of a new hospital.

A hospital may request that its FI use a different (higher or lower) CCR based on substantial evidence presented by the hospital.

For discharges occurring on or after August 8, 2003, high cost Outlier Payments may be reconciled upon cost report settlement to account for differences between the Cost-to-Charge Ratios (CCR) used to pay the claim at its original submission by the provider, and the CCR determined at final settlement of the cost reporting period during which the discharge occurred (42 CFR Section 412.84(i)(4)).

Under 42 CFR 412.84 (i)(4) and 412.84 (h)(3), effective for discharges occurring on or after August 8, 2003, Outlier Payments may be adjusted at the time of reconciliation to account for the time value of any underpayments or overpayments. Any adjustment will be:

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- Based on a widely available index which is the monthly rate of return that the Medicare trust fund earns; and
- Applied from the midpoint of the cost reporting period to the date of reconciliation.

A complete explanation of outlier reconciliation and the time value of money can be found by viewing CR3966 in its entirety. Particular attention should be given to the new sections of the *Medicare Claims Processing Manual*, which are included with CR3966.

Implementation

The implementation date for the related instruction is November 7, 2005.

Additional Information

For complete details, please see the official instruction issued to your intermediary regarding this change. That instruction may be viewed by going to <http://cms.hhs.gov/transmittals/downloads/R707CP.pdf> on the CMS web site. That CR provides details on how intermediaries calculate a hospital's operating and capital CCRs.

For a more detailed explanation on the calculations (including examples) of Outlier Payments, go to http://www.cms.hhs.gov/AcuteInpatientPPS/04_outlier.asp#TopOfPage on the CMS web site.

Also, the annual IPPS Proposed and Final Rule, which includes statewide average CCRs in Tables 8A and 8B) can be reviewed at and downloaded from <http://www.cms.hhs.gov/QuarterlyProviderUpdates/downloads/cms1500f.pdf> on the CMS web site.

For a detailed list of cost-to-charge ratios by provider and by federal Fiscal Year please download the impact files from the CMS public use file web site at <http://www.cms.hhs.gov/AcuteInpatientPPS/> on the CMS web site.

If you have any questions, please contact your intermediary at their toll-free number, which may be found at <http://www.cms.hhs.gov/MLNProducts/downloads/CallCenterTollNumDirectory.pdf> on the CMS web site.

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